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VIA E-MAIL

University of Oklahoma
c/o Ms. Molly Stephens
Quinn Emmanuel
865 South Figueroa Street, 10th Floor
Los Angeles, CA 90017-2543

Re: University of Oklahoma / Cross Village Project

Dear Ms. Stephens:

We are writing to you on behalf of UMB Bank, N.A., as trustee under the Trust Indenture dated March 1, 2017 relating to The University of Oklahoma Cross Village Student Housing Project Bonds. We are disappointed that the University has not responded to our letter dated August 7 inviting the University to participate in open discussions regarding the Cross Village project (the "Project").

The University advocated for the Project and played a very active role in its design. The Project was championed by the University's prior administration and its advisors as part of an overall housing plan to attract upperclassmen back to campus. The University fashioned the use of the first floor of the Project's student housing as commercial space with a large dining area to be operated by the University. It requested that the Project's parking area be suited for University purposes. The University agreed to lease the commercial space and parking area at rents established and agreed upon by the University so that the Project would generate enough revenue to meet operating expenses and debt service on the bonds at an agreed upon debt service coverage ratio of at least 1.20.

The University drew on its status as a respected and trusted State entity in order to seek investors for this Project. It assured investors that even though the leases for the commercial space and parking were renewable on an annual basis, the University intended to lease all of the commercial and parking spaces for the life of the bonds at the agreed upon rents. It did so with full knowledge and understanding that the offering statement for the bonds included long-term projections showing that the University would renew the leases and honor its lease payments. Major mutual funds, which aim to judiciously invest ordinary peoples' valued savings and pension monies, lent $250 million based on trusting the promise of the University that it would honor its obligations and not unnecessarily jeopardize Oklahoma's standing in the municipal market. The University broke its promise when it failed to renew those leases on July 26, 2019.

The University's rental obligations are known in the municipal market as moral obligations or obligations subject to annual budget appropriation. Subject to annual budget appropriation obligations are entered into to avoid the obligation being treated as debt under State law. Public entities that give their word to investors that they will budget monies on an annual basis for the renewal of leases – knowing that investors will rely on them to keep their word – are considered to undertake moral obligations. In the few other instances we know of where a governmental entity (in each case either a city or county) reneged on a subject to annual appropriation credit, the governmental entity suffered a severe downgrade and was either locked out of the marketplace for several years or was severely punished in the market place with high interest rates on its debt. We expect a similar outcome for the University of Oklahoma once the rating agencies and market participants focus on the University's bad faith in not renewing the leases. Given the strong affiliation between the University and OU Medicine, it would also not be surprising if there were a negative impact on the $1 billion outstanding OU Medicine Project Bonds.

The State of Oklahoma and its affiliated entities have over $2 billion of subject to annual budget appropriation obligations outstanding in the form of lease revenue bonds, certificates of participation in leases (COPS) and similar instruments. Given the likely negative impact on the State and its affiliates' moral obligation lease arrangements, it is difficult to understand how the University could even contemplate dodging its moral obligation relating to its leases.

We point out that the Oklahoma State Bond Advisor 2018 Annual Report states the following:

> State agency lease purchase agreements all contain "non-appropriation" language that allows for termination of the lease at the end of any fiscal year. From a credit perspective, the markets recognize that these leases are not legally a debt of the State, but do represent an on-going commitment backed by the State's general resources.
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> A failure to appropriate for these lease payments could have negative consequences for Oklahoma's credit rating and affect its ability to access funds in the capital markets. However, the Oklahoma Legislature has never failed to appropriate sufficient funds to an agency to meet an annual lease requirement and these are considered very secure obligations.

While the State legislature has never failed to meet its annual appropriation lease obligations, now for the first time, a State agency, the University of Oklahoma, has done so. This is a major blemish for the State and one it should have to acknowledge in the Oklahoma State Bond Advisor's next edition.

We also believe it is important to remind you that the University was paid $20 million at the closing of the bond transaction because it insisted the funds were needed for an upfront ground lease payment. This type of upfront fee is rare in public private partnerships for student housing.

In light of all of this, it is shocking that after the first one year term of the leases and after receiving the $20 million upfront payment, the University on July 26 did not renew the commercial space and parking leases. That decision fundamentally undermines and reneges on its promises to support the Project. This outright betrayal is unprecedented by any governmental entity in Oklahoma and by any State affiliated entity anywhere in the United States. It makes a mockery of the $2 billion subject to appropriation obligations in the State of Oklahoma.

This reckless repudiation makes the entire transaction appear like the University wants the Project to fail for the pecuniary benefit of the University and at the expense of investors. Indeed, this impression is reinforced by reliable sources who have told us that the University's strategy is to drag things out until it can get ownership of the Project at pennies on the dollar. This sinister plan is more like that of a vulture hedge fund than of a governmental entity.

The reality is that the failure to renew the leases will be to the grave detriment of the citizens of Oklahoma. This belligerent act sends a loud and clear message to the market place and business community: YOU CANNOT TRUST AND SHOULD NOT DO BUSINESS WITH OR BUY BONDS OF THE UNIVERSITY OR THE STATE OF OKLAHOMA.

In our prior letter, we warned that the recalcitrant approach of the University to this matter may result in litigation. Given its continued unwillingness to reconsider its irresponsible acts or to meaningfully engage, the University is leading us down this path at a quicker pace.

In fact, absent a fundamental change in the University's course of conduct, we anticipate – and the University should anticipate – that litigation against University will be commenced based on, among other things, its role in the issuance of the bonds, its actions in connection with the Project, and its receipt of $20 million in bond proceeds. Accordingly, the University should take immediate steps to preserve, and immediately suspend all routine destruction of, all documents relevant to such claims, including without limitation the following:

1. Documents relating to statements (and the accuracy and completeness of statements) made by the University in connection with the issuance of the bonds, including regarding the University's intent to renew the commercial space and parking leases, demand for student housing on campus, and existing competition to the Project;

2. Documents relating to the establishment and negotiations of the amount of rent for the commercial space and parking;

3. Documents relating to the University's acts and omissions that negatively impacted the Project, including without limitation the decision not to renew all of the commercial space and parking leases and the discontinuation of dining services at the Project, and their expected impact on the Project;

4. Documents relating to the negotiation of, and the use of, the $20 million upfront payment to the University from the bond proceeds; and

5. Documents relating to the anticipated impact of the University's acts and omissions on the Project and its viability, anticipated viability of the Project, and the University's anticipated role and relationship to the Project in the future.

The University is responsible for its institutional decisions from one administration to another. It cannot make promises to induce investments from the most respected names in the municipal market and receive $20 million only to then walk away from its obligations without serious consequences for Oklahoma.

Having said all of the above, it is not too late for the University to change course and avoid the serious consequences of its ill-advised acts. However as it continues on its misguided path, the window for reversal is continually closing.

Sincerely,

David L. Dubrow

cc: Michael Slade
Louis Quinn
Mark Angelov